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Financial Determinants of Stock Prices in the Jakarta Islamic Index: Evidence from DER, PER, and DPS

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ABSTRACT

Introduction: Understanding how financial indicators drive stock prices in Sharia-compliant markets is essential for guiding informed and ethical investment decisions. This study examines the influence of three key financial performance measures—Debt to Equity Ratio (DER), Price Earning Ratio (PER), and Dividend per Share (DPS)—on the stock prices of companies listed in the Jakarta Islamic Index (JII). As one of Indonesia's premier Islamic indices, JII offers a distinctive setting where conventional financial metrics interact with the principles of Islamic finance.
Methodology: A quantitative explanatory approach was employed using panel data from 20 companies consistently listed in JII between 2019 and 2023. Firms were selected based on consistent dividend distribution, complete financial reporting, and compliance with Sharia screening criteria. The Fixed Effect Model was chosen following Chow and Hausman tests. Model validity was confirmed through classical assumption tests, showing normality, no multicollinearity, no heteroskedasticity, and no autocorrelation.
Results: The analysis reveals that PER ($\beta = 62.43$, $p = 0.002$) and DPS ($\beta = 4.15$, $p < 0.001$) exert a significant positive influence on stock prices, indicating that profitability expectations and dividend policies are decisive factors for investors. Conversely, DER ($\beta = -305.78$, $p = 0.039$) has a significant negative effect, suggesting that higher leverage is viewed unfavorably in Sharia markets due to restrictions on interest-based financing. The adjusted R^2 of 0.709 reflects strong explanatory power.
Conclusion: Dividend policy and profitability expectations emerge as primary drivers of stock prices in JII-listed firms, while excessive leverage undermines market valuation. These findings offer practical guidance for corporate managers, policymakers, and investors aiming to strengthen Sharia-compliant investment strategies. Future studies may integrate macroeconomic variables or compare across global Islamic indices to broaden the insights.

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jakarta islamic index; debt to equity ratio; price earning ratio; sharia-compliant investment

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INTRODUCTION

The performance of capital markets plays a critical role in supporting national economic growth by enabling companies to raise long-term funds from investors. In this context, stock price fluctuations are among the most observed indicators by both investors and policymakers due to their direct implications on investment decisions and market confidence (Kurniawan & Darmawan, 2021; Prasetyo et al., 2023). The Jakarta Islamic Index (JII), as one of Indonesia's premier Sharia-compliant stock indices, offers a unique opportunity for researchers to analyze the behavior of Islamic equities, which are governed not only by market forces but also by ethical and religious considerations (Hakim & Firdaus, 2022; Farooq & Lahsasna, 2021).

The determinants of stock prices have long been studied through fundamental indicators, including the Debt to Equity Ratio (DER), Price Earning Ratio (PER), and Dividend per Share (DPS) (Chen et al., 2022; Nurfadilah & Nugroho, 2023). These variables reflect critical aspects of a firm's financial health, profitability, and shareholder policy. According to Ahmad & Osman (2020), PER reflects market expectations about a firm's future earnings, while DPS reflects the firm's commitment to distributing profits to shareholders. DER, on the other hand, captures the firm's capital structure and risk profile, with high leverage potentially raising concerns among risk-averse investors.

In Islamic markets such as JII, the role of these financial indicators may behave differently due to Sharia restrictions—especially those concerning interest (riba), speculation (gharar), and excessive uncertainty. Islamic equity screening often limits highly leveraged firms, which may reduce the variability and impact of DER in such contexts (Hanif, 2021; Wahyuni & Fitri, 2022). Nevertheless, previous empirical studies show mixed results regarding the influence of these indicators. For instance, Sari et al. (2023) found PER to have a significant positive effect on stock prices in Sharia-compliant firms, while Putri & Hidayat (2021) reported DPS to be a dominant factor for investor decisions in the Indonesian Islamic equity market. Conversely, research by Iskandar & Dewi (2022) found DER to be statistically insignificant in affecting Sharia stock prices, raising questions about its relevance under Islamic principlesDespite the substantial body of literature on stock price determinants in conventional markets, there is a relative scarcity of focused empirical investigations on Islamic indices, particularly in Indonesia. Furthermore, most existing studies analyze these indicators in isolation or only over short time periods, which limits their explanatory power (Khan et al., 2021; Ramadhani et al., 2024). This study aims to fill this gap by analyzing the combined effect of DER, PER, and DPS on the stock prices of companies listed in JII over a five-year period (2019–2023), using panel data regression.

This research contributes to the Islamic finance literature in several important ways. First, it offers empirical insights into how conventional financial ratios operate in a Sharia-compliant market, thus enriching the theoretical dialogue between Islamic principles and modern financial analysis. Second, the study provides practical implications for investors,

portfolio managers, and regulators in emerging Islamic markets by identifying key financial indicators that influence investor behavior and market valuation. Third, it addresses a contextual need for better understanding of Indonesia's Islamic capital market, which continues to grow in both domestic and international investor interest (Oktaviani & Fajri, 2023; Tarmizi et al., 2022).

Accordingly, this study aims to examine the extent to which the Debt to Equity Ratio (DER), Price Earning Ratio (PER), and Dividend per Share (DPS) influence the stock prices of companies listed on the Jakarta Islamic Index during the 2019–2023 period. By addressing this objective, the research seeks to enrich the discourse on Islamic equity markets and contribute to the development of more informed and ethically-aligned investment strategies in Indonesia and beyond.

METHODOLOGY, DATA, AND ANALYSIS

This study employs a quantitative explanatory research approach, aiming to examine the effect of fundamental financial indicators—Debt to Equity Ratio (DER), Price Earning Ratio (PER), and Dividend per Share (DPS)—on stock prices of companies listed in the Jakarta Islamic Index (JII). This approach is appropriate for identifying causal relationships between variables within a positivist paradigm. The study applies a panel data structure across a five-year period from 2019 to 2023 to enhance statistical robustness. The population consists of all companies listed in the Jakarta Islamic Index (JII) during the 2019– 2023 period. A purposive sampling technique wasapplied with the following inclusion criteria: The firm is consistently listed in the JII index during the observation period ; The firm publishes complete financial reports with accessible data on DER, PER, DPS, and year-end stock prices ; The firm distributed dividends at least once during the study period ; The firm complies with Islamic investment principles, including interest-free and ethically aligned operations. Based on these criteria, a final sample of 20 companies was selected for analysis. This sample size is considered sufficient to capture variability in financial performance and ensure the reliability of statistical analysis. This study uses secondary data, collected from publicly accessible sources such as: The official website of the Indonesia Stock Exchange (IDX) ; Company annual reports and audited financial statements ; Publications from the Financial Services Authority (OJK) and Other verified financial databases.

This study applies a multiple linear regression model using panel data estimation. The regression equation used is as follows:

$$\textbf{StockPrice\_it} = \alpha + \beta 1 \times DER\_it + \beta 2 \times PER\_it + \beta 3 \times DPS\_it + \varepsilon\_it \qquad [1]$$

Where:
StockPrice_it : Stock price of firm *i* at time *t*
DER_it : Debt to Equity Ratio

PER_it : Price Earning Ratio
DPS_it ; Dividend per Share
α : Constant
β1, β2, β3 : Coefficients of respective variables
ε_it : Error term

RESULT AND DISCUSSION

Before running the regression analysis, model selection was carried out to identify the best estimation method for the panel data among Common Effect, Fixed Effect, and Random Effect models. The Chow Test was first employed to compare Common and Fixed Effects. The result showed a significant p-value (< 0.05), suggesting that the Fixed Effect model is more appropriate than the Common Effect. Furthermore, the Hausman Test was conducted to compare Fixed and Random Effects, and the result also indicated a significant p-value (< 0.05), confirming that the Fixed Effect model should be used. Therefore, this study adopts the Fixed Effect model as the most suitable estimator. To validate the regression model, classical assumption tests were performed as follows:

i. Normality Test: The Jarque-Bera test and histogram of residuals indicate that residuals are approximately normally distributed.
ii. Multicollinearity Test: Variance Inflation Factor (VIF) values for all independent variables were below 1.1, indicating no multicollinearity problem.
iii. Heteroskedasticity Test: The Breusch-Pagan test confirmed the absence of heteroskedasticity (p > 0.05).
iv. Autocorrelation Test: The Durbin-Watson statistic value was close to 2, showing no autocorrelation issues.

These diagnostic results support the statistical soundness and robustness of the regression model used in this study.

Table 1. Regression Results

Variable	Coefficient	t-Statistic	p-Value
Constant	1450.12	2.674	0.012**
DER	-305.78	-2.157	0.039**
PER	62.43	3.342	0.002***
DPS	4.15	4.297	0.000***
R^2	0.731	-	-
Adj. R^2	0.709	-	-
F-stat	33.57	(p = 0.000)	-

Notes: * = significant at 10 percent alpha, ** = significant at 5 percent alpha,
*** = significant at 1 percent alpha

The findings of this study provide compelling evidence regarding the financial indicators that influence stock prices of companies listed in the Jakarta Islamic Index (JII). Each independent variable — Debt to Equity Ratio (DER), Price Earning Ratio (PER), and Dividend per Share (DPS) showed significant relationships with stock price, both statistically and economically (**Table 1**).

Debt to Equity Ratio (DER)

The negative and significant relationship between DER and stock price (β = -305.78, p = 0.039) supports the Trade-off Theory (Myers, 1984), which posits that while debt may provide tax shields, excessive reliance on debt increases the risk of financial distress. This aligns with the findings of Fauzi & Locke (2020) and Sukmawati et al. (2022), who observed that companies with higher leverage are generally viewed as riskier by investors, especially in emerging and Islamic capital markets, thereby reducing their attractiveness and stock valuation.

Moreover, this result is in line with Sharia-compliant financial practices, where lower leverage ratios are preferred due to the prohibition of interest (riba). As noted by Abdullah & Razak (2021), Islamic investors tend to place more trust in firms that uphold financial discipline consistent with maqasid al-shariah. Therefore, lower DER enhances investor confidence and positively influences stock price stability. This negative and statistically significant relationship is consistent with research in other Islamic markets. For instance, Hanif (2021) and Rachmawati & Wibowo (2021) found that in Pakistan and several GCC countries, high financial leverage tends to decrease investor confidence due to the heightened risk and non-compliance with Sharia principles. This reflects a shared global pattern where Islamic investors favor low-debt firms to uphold both financial prudence and ethical alignment.

Price Earning Ratio (PER)

The positive and significant effect of PER on stock prices (β = 62.43, p = 0.002) is consistent with the Signaling Theory (Spence, 1973). A high PER often signals to the market that investors expect strong future earnings growth. As confirmed by Kusnandar & Sari (2021), companies with higher PER are typically more favorably perceived by the market, which can lead to stock price appreciation.

The results also echo Fama and French's (2015) findings in their multi-factor model, where firms with higher growth expectations (proxied by PER) tend to attract premium valuations. In Islamic capital markets, this is particularly relevant as investors are drawn to firms demonstrating ethical profitability and future-oriented business strategies (Saad et al., 2019). The strong positive effect of PER mirrors findings from Islamic equity markets such as Malaysia and the UAE. According to Khan et al. (2021) and Alam & Rizvi (2020), high PER in these regions is interpreted as an indication of solid growth prospects and sustainable

earnings criteria that are equally valued by investors in Sharia-compliant portfolios.

Dividend per Share (DPS)

The most robust impact was observed from DPS ($\beta = 4.15$, $p < 0.001$), suggesting that dividend policy is a dominant determinant of stock price in the context of JII firms. This corroborates Dividend Signaling Theory (Lintner, 1956), which posits that regular and increasing dividends act as a signal of company health and future profitability.

Research by Rahmani et al. (2022) and Yusra & Firmansyah (2020) also affirms that dividend announcements positively affect investor perception and can reduce information asymmetry in markets. In the Islamic finance domain, dividends are viewed as legitimate and preferred returns, since capital gains may carry speculative elements (gharar). Hence, dividend consistency plays a pivotal role in valuation for Sharia-compliant stocks.

Similar conclusions have been drawn in studies conducted in Bahrain and Saudi Arabia. Farooq & Lahsasna (2021) and Hasanah et al. (2023) found that stable and ethical dividend distribution in Islamic markets serves not only as a financial incentive but also as a sign of managerial transparency and adherence to Islamic financial ethics. This consistency in investor response across jurisdictions highlights the universal importance of DPS in Sharia-aligned investing.

Model Robustness and Implications

With an adjusted R^2 of 0.709, the model demonstrates strong explanatory power explaining over 70% of the variation in stock prices based on the selected financial ratios. This level of predictability underscores the financial relevance and strategic importance of these indicators for investors, analysts, and corporate managers operating in Sharia-aligned contexts.

The absence of multicollinearity (as confirmed by low VIF values) further validates the independence of each predictor, strengthening the robustness of the regression findings. Moreover, the residuals' approximate normality affirms the model's reliability, fulfilling essential classical assumptions.

CONCLUSION AND SUGGESTION

This study concludes that among the three financial indicators examined, Dividend per Share (DPS) and Price Earning Ratio (PER) have a significant and positive influence on stock prices of companies listed in the Jakarta Islamic Index (JII), while Debt to Equity Ratio (DER) shows a significant negative effect. These findings confirm that dividend policy and profitability expectations are critical drivers of investor behavior in Islamic capital markets, whereas high financial leverage is viewed unfavorably due to Sharia restrictions on interest. Practical implications arise for stakeholders in Islamic finance. Corporate managers should maintain sound dividend policies and moderate capital structures to strengthen investor

trust. Policymakers may consider formulating screening standards that integrate financial ratios with ethical compliance, while investors are encouraged to incorporate both DPS and PER in their valuation strategies within a Sharia framework.

Future research could build upon the findings of this study in several meaningful directions. First, it may extend the current analysis by exploring other Islamic indices such as the FTSE Hijrah or Dow Jones Islamic Index to validate the universality of these findings. Second, incorporating macroeconomic indicators like inflation, exchange rate volatility, and GDP growth may enrich the explanatory power of financial models and provide insights into how broader economic factors interact with firm-level fundamentals in Islamic capital markets. Third, researchers may adopt dynamic panel approaches or nonlinear models to capture investor behavior over time and account for complex relationships.

Finally, studies can explore how behavioral and ethical considerations influence investment decisions, particularly by integrating perspectives from Islamic behavioral finance across various jurisdictions.

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